

HB2566 HD2

Measure Title: RELATING TO ELECTRICITY.

Report Title: Nonfossil Fuel Generated Electricity; Rates

Description: Establishes criteria for the Public Utility Commission's methodology in determining the rate that a public utility should pay a producer for nonfossil fuel-generated electricity that the producer supplies to the public utility. (HB2566 HD2)

Companion:

Package: None

Current Referral: CPH, TRE

Introducer(s): C. LEE, CULLEN, LOPRESTI, THIELEN



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TO THE SENATE COMMITTEE ON
COMMERCE, CONSUMER PROTECTION, AND HEALTH

THE TWENTY-EIGHTH LEGISLATURE
REGULAR SESSION OF 2016

TUESDAY, MARCH 22, 2016
9:30 A.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR, DIVISION OF
CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER
AFFAIRS, TO THE HONORABLE ROSALYN H. BAKER, CHAIR,
AND MEMBERS OF THE COMMITTEE

HOUSE BILL NO. HB 2566, H.D. 2 - RELATING TO ELECTRICITY

DESCRIPTION:

This measure proposes to establish criteria for the Public Utilities Commission's ("PUC") methodology in determining the rate that a public utility should pay a producer for non-fossil fuel generated electricity that the producer supplies to the public utility.

POSITION:

The Division of Consumer Advocacy ("Consumer Advocate") supports the intent of this bill and offers comments.

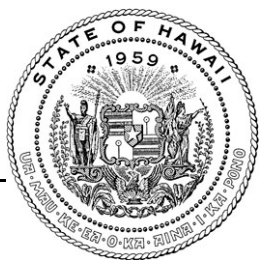
COMMENTS:

The PUC and the Consumer Advocate already consider these factors when determining just and reasonable rates for purchased power, so the proposed statutory language is unnecessary. The Consumer Advocate is concerned that by specifically listing the factors to be considered in determining the rate that a public utility should pay an independent power producer that the Legislature intends that these factors shall take a priority over any factors not specifically listed, especially the costs to consumers.

House Bill No. 2566, H.D. 2
Senate committee on Commerce, Consumer Protection, and Health
Tuesday, March 22, 2016, 9:30 a.m.
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Furthermore, customer bill impact should be a listed factor, if not the very first factor that needs to be considered.

Thank you for this opportunity to testify.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION & HEALTH
Tuesday, March 22, 2016
9:30 a.m.
State Capitol, Conference Room 229

in consideration of
HB 2566, HD2
RELATING TO ELECTRICITY

Chair Baker, Vice Chair Kidani, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on HB 2566, HD2, Relating to Electricity. DBEDT supports the intent of a measure to utilize renewable energy pricing structures to reduce the risk of the State's exposure to fossil fuels.

However, DBEDT offers comments on how prescribing attributes to be incorporated into a pricing methodology by which the Commission would be obligated to set renewable prices could inadvertently result in inefficiently priced renewable projects. This could result in reduced fuel cost savings to utility customers in the transition to renewable energy.

While quantifying and summarizing various attributes of a renewable resource was explored in the Hawaii Energy Policy Forum's report "Best Practices to Value Benefits of Renewable Energy Development in Hawaii," an unintended consequence of that approach is that this methodology could signal a price floor to the renewable market at a time when innovation is driving costs downward. Therefore, setting the price for renewables in that manner might not reflect the competitive nature in the market and the tendency for further reduction of renewable energy prices. Alternatively if the cost of fossil fuel resources were to increase, resulting in a calculated increase in the "value" of attributes it may necessitate paying higher prices for renewable energy even if the installation costs for renewable facilities had not changed. DBEDT

has concerns with any methodology which could inadvertently limit competition that would result in higher costs for utility customers.

We are also concerned about how summation of quantified values transfers the cost savings created by renewables to the supplier. In essence, if the methodology to establish a price reflects all the fuel cost savings benefits (e.g. fuel price volatility, fuel supply, reliability risks, greenhouse gas emissions, cost and benefits of distributed generation relative to central station generation, etc.) then utility customers would not realize any fuel cost savings from the move to renewable energy. Any savings they could have realized would be reflected in the price of the renewable energy paid to the supplier.

The facts in Hawaii and elsewhere in the world clearly demonstrate that renewable energy can result in significant benefits and fuel cost savings for Hawaii. We urge caution in pursuing methodologies that may compromise how utility customers benefit from the potential value that renewable energy provides.

Thank you for the opportunity to offer these comments regarding HB 2566, HD2.

**TESTIMONY BEFORE THE SENATE COMMITTEE ON
COMMERCE, CONSUMER PROTECTION, AND HEALTH**

H.B. No. 2566 HD2

Relating to Electricity

Tuesday, March 22, 2016

9:30 am

State Capitol, Conference Room 229

Rodney Chong
Manager, Renewable Acquisition
Hawaiian Electric Company

Chair Baker, Vice Chair Kidani, and Members of the Committee:

My name is Rodney Chong and I am testifying on behalf of Hawaiian Electric Company and its subsidiary utilities Maui Electric Company and Hawai'i Electric Light Company. We are offering comments to H.B. 2566 HD 2.

This original draft of this bill established narrow criteria for the PUC's methodology in determining the rate that a public utility should pay a producer for non-fossil fuel generated electricity. The revised draft (HD2) provides clarifying language which does not require the PUC to explicitly consider the benefits of distributed generation. Nevertheless, we believe that this bill remains unnecessary because there are overlapping principles in HRS §269-145.5 (Advanced grid modernization technology; principles) and many of the factors mentioned in the proposed amendments are already considered by the PUC and the parties in the Power Supply Improvement Plan ("PSIP") docket (Docket No. 2014-0183) and Phase 2 of the Distributed Energy Resources ("DER") docket (Docket No. 2014-0192). In Phase 1 of the DER docket, the PUC established broad reforms through a collaborative process that will support sustainable growth in the market for rooftop solar PV and other DER desired by Hawai'i's residents and businesses. The reforms established by the Commission will: (1) promote rapid adoption of the next generation

of solar PV and other distributed energy technologies, (2) encourage more competitive pricing of DER systems, (3) lower overall energy supply costs for all customers, and (4) help to manage each island grid's scarce capacity.

In Phase 2 of the DER docket, the PUC will focus on further developing competitive markets for DER in Hawai'i. As stated by the PUC, the PUC will closely monitor the progress of the state's electric utilities as they move towards 100% renewable energy and will take further action to ensure the state's electric utilities continue to reduce costs to customers while ensuring the safety and reliability of each island grid.

If this bill moves forward, we recommend that it does not narrowly focus on the costs and benefits of distributed generation, but rather accounts for all resources and technologies. Please note that evaluation of all available resources and technologies is already progressing through the aforementioned dockets which ensure the optimal mix of resources and technologies. We would want to avoid the PUC being handcuffed into approving rates that favor one resource or technology over another, which may not provide an optimized resource mix, and may not result in the lowest cost for ALL customers

We believe the PUC needs to be given the time and latitude to get the foundation in place for key issues before new legislation is enacted that may restrain the PUC's ability to do what is best for customers.

Accordingly, if this bill is to move forward, the Hawaiian Electric Companies offer comments to H.B. 2566 HD2 to change reference to "distributed generation" to "all resources and technologies".

Thank you for this opportunity to testify.



SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND HEALTH

March 22, 2016, 9:30 A.M.

Room 229

(Testimony is 1 page long)

**TESTIMONY IN STRONG SUPPORT OF HB 2566 HD2
Proposed Amendment**

Aloha Chair Baker, Vice Chair Kidani, and Committee members,

Blue Planet strongly supports HB 2566 HD2, which requires energy decisions to quantify a full spectrum of benefits when determining prudent energy prices. This is essential in order to make “apples to apples” comparisons between the prices of renewable energy and fossil fuel energy.

The current practice for examining energy prices does not systematically quantify the benefits of renewable energy, such as fixed or constrained renewable energy prices that will stay stable even as fossil fuel prices are volatile. These benefits were detailed in a Hawaii Energy Policy Forum report (the “Swisher Report”). By not quantifying the benefits identified in the Swisher Report, **we are systematically undervaluing some forms of energy, to the detriment of consumers**. Frequently, this causes fossil fuel energy to “appear” anomalously cheap, even if it actually is a worse choice for consumers. HB 2566 can solve that problem.

We suggest a clarifying amendment, using the phrase “distributed resources” rather than “distributed generation.” The phrase “distributed resources” has been recently used in regulatory proceedings, acknowledging that distributed renewable energy infrastructure can provide generation *and* other valuable services to the grid. Making this clarifying change will ensure that this policy applied to both energy generation and other energy services.

Thank you for the opportunity to testify.



Hawaii Solar Energy Association
Serving Hawaii Since 1977

**TESTIMONY OF THE HAWAII SOLAR ENERGY ASSOCIATION
IN REGARD TO HB 2566 HD 2, RELATING TO ELECTRICITY
BEFORE THE
SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION AND HEALTH
ON
TUESDAY, MARCH 22, 2016**

Chair Baker, Vice-Chair Kidani, and members of the committee, my name is Hajime Alabanza, and I represent the Hawaii Solar Energy Association, Inc. (HSEA)

HSEA supports HB 2566 HD 2 with comments. This bill amends §269-27.2, Hawaii Revised Statutes, to provide guidelines for the Public Utilities Commission to set appropriate rates at which non-fossil fuel energy is purchased by the utility.

Currently, fossil fuel prices are at the lowest they have been since the 1990's. However, less than ten years ago, oil was trading at all-time highs: \$136/bbl in June of 2008, and, if history has taught us any lesson, it is that these low oil prices are only temporary—they will go back up.

The fossil fuels market is volatile and no state is less protected from this than Hawaii. In order to better insulate the state from this volatility, it is imperative to allow the public utilities commission to set appropriate rates for alternative sources of energy. These rates should accurately reflect changes in the energy market as well as externalities attributed to the installation of alternate energy sources. This fosters growth in the renewable industry, promotes progress towards a 100% renewable portfolio standard, and removes market pressure from fossil fuels.

Additionally, language inserted in the HD 2 revision of HB 2566 broadens the definition of the methodology for calculating rates for excess energy generation. This allows for greater flexibility on the part of the commission, which is a necessary component of electrical rate determination. However, HSEA would caution against overly broad definitions that could create potential exploitable loopholes.

Thank you for the opportunity to testify.



COLLEGE OF SOCIAL SCIENCES
HAWAII ENERGY POLICY FORUM
UNIVERSITY OF HAWAI'I AT MĀNOA

Hawaii Energy Policy Forum

Jeanne Schultz Afuvai, Hawaii Inst. for Public Affairs
Karlie Asato, Hawaii Government Employees Assn
Joseph Boivin, Hawaii Gas
Warren Bollmeier, Hawaii Renewable Energy Alliance
Michael Brittain, IBEW, Local Union 1260
Albert Chee, Chevron
Elizabeth Cole, The Kohala Center
Kyle Datta, Ulupono Initiative
Mitch Ewan, UH Hawaii Natural Energy Institute
Jay Fidell, ThinkTech Hawaii
Carl Freedman, Haiku Design & Analysis
Matthias Fripp, REIS at University of Hawaii
Ford Fuchigami, Hawaii Dept of Transportation
Mark Glick, Hawaii State Energy Office, DBEDT
Justin Gruenstein, City & County of Honolulu
Dale Hahn, Ofc of US Senator Brian Schatz
Michael Hamnett, SSRI at University of Hawaii
Senator Lorraine Inouye, Hawaii State Legislature
Randy Iwase, Public Utilities Commission
Ashley Kaono, Ofc of US Representative Tulsi Gabbard
Jim Kelly, Kauai Island Utility Cooperative
Darren Kimura, Energy Industries
Kelly King, Sustainable Biodiesel Alliance
Kal Kobayashi, Maui County Energy Office
Representative Chris Lee, Hawaii State Legislature
Gladys Marrone, Building Industry Assn of Hawaii
Stephen Meder, UH Facilities and Planning
Hermiona Morita, Energy Dynamics
Sharon Moriwaki, UH Public Policy Center
Tim O'Connell, US Dept of Agriculture
Jeffrey Ono, Division of Consumer Advocacy, DCCA
Stan Osserman, HCATT
Darren Pai, Hawaiian Electric Companies
Melissa Pavlicek, Hawaii Public Policy Advocates
Randy Pereira, Hawaii Government Employees Assn
Rick Reed, Hawaii Solar Energy Assn
Cynthia Rezendes, Ofc of US Representative Mark Takai
Rick Rocheleau, UH Hawaii Natural Energy Institute
Will Rolston, Hawaii County, Research & Development
Riley Saito, SunPower Systems
Scott Seu, Hawaiian Electric Companies
Joelle Simonpietri, US Pacific Command Energy Ofc
H. Ray Starling, Hawaii Energy
Ben Sullivan, Kauai County
Lance Tanaka, Par Hawaii, Inc.
Maria Tome, Public Utilities Commission
Alan Yamamoto, Ofc of US Senator Mazie Hirono

Testimony of the
Hawaii Energy Policy Forum
Before the

Senate Committee on Commerce, Consumer Protection, and Health
Tuesday, March 22, 2016 at 9:30am in Conference Room 229

Comments on HB2566 HD2, Relating to Electricity

Chair Baker, Vice-Chair Kidani, and Members of the Committee,

The Hawaii Energy Policy Forum (“HEPF”), created in 2002, is comprised of over 40 representatives from Hawaii’s electric utilities, oil and natural gas suppliers, environmental and community groups, renewable energy industry, and federal, state and local government, including representatives from the neighbor islands. Our vision, mission and comprehensive “10 Point Action Plan” guide us in moving Hawaii toward its preferred energy goals and our comments on this bill.

HB 2566 HD2 requires the Public Utilities Commission (“PUC”) to use a specific methodology for determining the rate for non-fossil fuel generated electricity. While the HEPF agrees that the additional factors listed in HB2566 HD2 should be considered in setting fair rates as recommended in a HEPF-commissioned study last year (See “Best Practices To Value Benefits of Renewable Energy Development in Hawai‘i” by Joel Swisher, June 2015), the HEPF cautions against the existing language requiring these factors to become explicit adjustments to what would become complex and over-burdensome tariff methodologies.

The HEPF supports adopting these recommendations as mandatory policy guidance to be explicitly considered by the PUC in establishing the tariff methodologies. Additionally, the HEPF supports locally produced renewable fuels as an additional consideration. Thus, the HEPF respectfully submits the following language (amendments underlined) to be considered for a Senate Draft 1 version of the bill.

In establishing the methodology, the commission shall explicitly take into account the objective of reducing the risks of the State's exposure to fossil fuels, including:

- (1) The impact of fuel price volatility in electricity rates, fuel supply reliability risks, and greenhouse gas emissions;*
- (2) The costs and benefits that distributed generation has on the electrical distribution and transmission grid systems;*
- (3) The need to achieve the State's renewable portfolio standards provided in this chapter;[and]*
- (4) The promoting of Hawaii's long-term objective of energy self-sufficiency; and*
- (5) The economic benefits of local renewable energy production.*

Thank you for the opportunity to testify.

This testimony reflects the position of the Forum as a whole and not necessarily of the individual Forum members or their companies.